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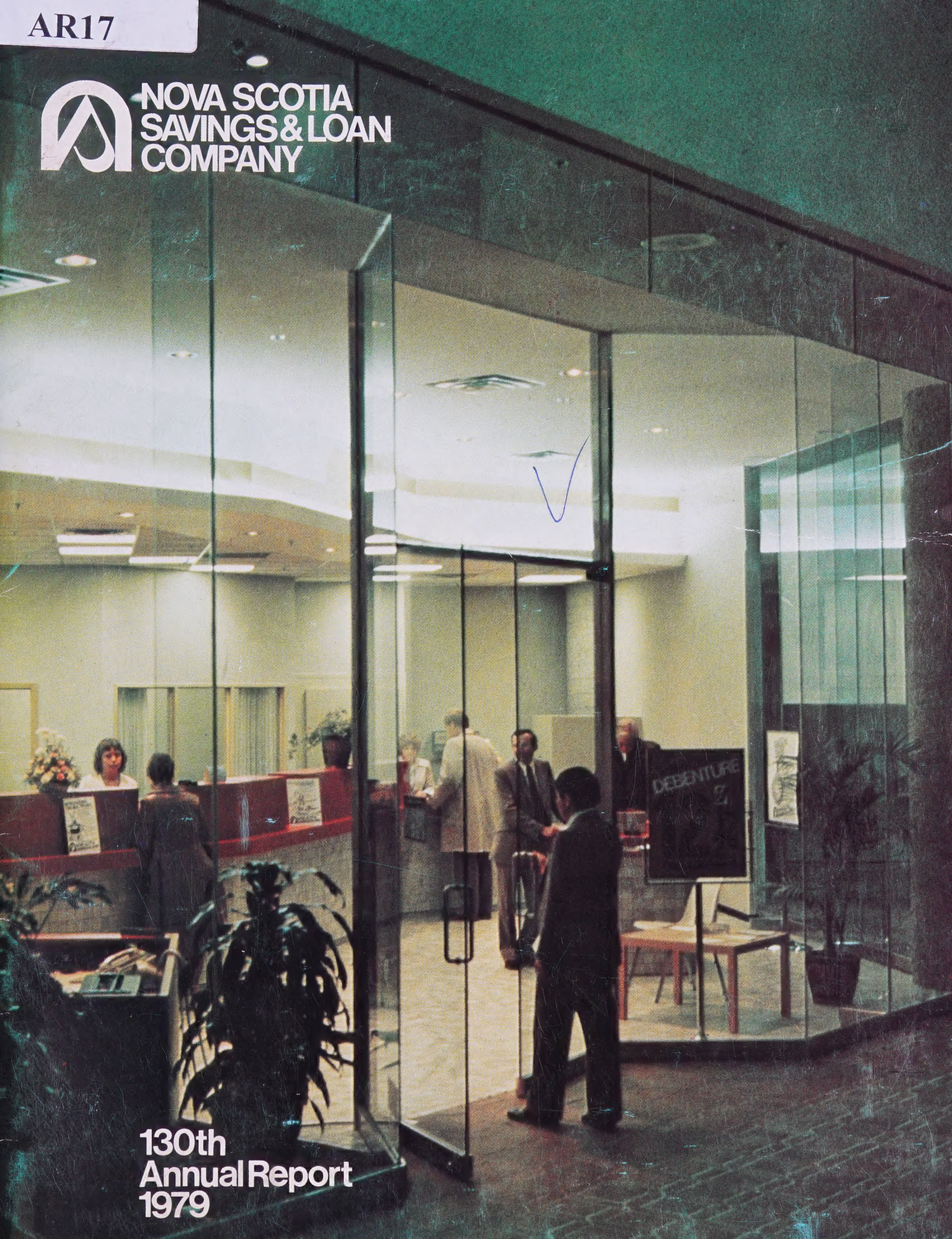
NOVA SCOTIA SAVINGS & LOAN COMPANY



130th Annual Report 1979

Nova Scotia Savings & Loan Company
130th Annual Report
1979

Cover

Nova Scotia Savings & Loan has been a regional company since it was founded in 1850. Annual report covers in the past have emphasized this long history by reproducing unmistakable paintings of Atlantic scenes by a well-known local artist.

The cover for 1979 is a departure with more significance than a simple desire for change. It shows the first customers being served at the company's new branch which opened for business on January 28, 1980 in the Gulf Canada Square Building in the heart of Calgary's business district, representing the first phase in our transition from a purely regional branch operation.

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President's Remarks

James E. Radford,
President and Chief Executive Officer

Mr. James E. Radford was appointed President and Chief Executive Officer in September, 1979, after more than fifteen years in senior positions in Canadian domestic and international banking. He is a chartered accountant and holds a master's degree in business administration from the Harvard Business School.

As the year closed, final preparations were completed for the opening in Calgary of the first full-service branch outside of the Atlantic Region since the founding of the company 130 years ago.

The branch is on the ground floor of Gulf Canada Square, one of the newest and most prestigious buildings in the downtown core, and was opened for business on January 28, 1980. Its location gives the company a high profile in the business community and provides a solid base for future growth in the West.

The expansion follows four years of experience in the mortgage business in Western Canada. In 1977 we opened a small office in Calgary to supervise our growing portfolio. The bulk of the company's funds were invested in the residential market. However, during the year we began to take a more aggressive position in the commercial and industrial mortgage markets as demand from home owners slackened. In many instances, we participated with other lenders familiar with the West, and frequently through floating rate instruments.

This experience, together with the evident potential for growth, made the decision to "step out" from Atlantic Canada a logical one. The branch offers us greater capacity for business development, and we will continue to invest heavily in the West and to fund a greater proportion from that region.

It should be emphasized that these markets will not be developed at the expense of our traditional markets, and new products and services, supported by marketing and advertising programs are being introduced with equal vigour in all areas.

The wide range of services being offered by your company makes it imperative that all branch staff cross-sell these services so that every customer begins to see Nova Scotia Savings & Loan as a place for all financial needs. Cross-selling is the cornerstone of our marketing strategy.

You will see on page six an example of the new logotype which will be applied to all printed and advertising materials. It is of modern design, eye-catching and unique, and is the mark that will identify your company as it moves into the Eighties.

It would be gratifying if, in my first annual report to shareholders, I could report a more successful year. Unfortunately, the rapid rise in interest rates in the second half of the year put great pressure on operations at all levels.

During the last four months alone, the Bank of Canada increased the bank rate three times from $11\frac{3}{4}\%$ to a record high of 14%. Other interest rates followed which adversely affected the mortgage market and narrowed margins to a point at which a satisfactory return on our operations was difficult to obtain.

We expect interest rates to remain at or close to current levels for the first half of 1980, since Canadian monetary authorities have little option in the near term but to follow international trends.

Our answer to the situation is to become more aggressive and competitive, and more efficient at every level. This we are doing, and will continue to do.

It is our hope that when the Trust Companies Act and the Loan Companies Act are revised, we will be given broader investment and lending powers so that competition in financial markets will be fair when the chartered banks obtain new powers under the Bank Act. This is a matter of the utmost concern to our industry.

The year ahead for the economy is expected to be another challenge, with GNP growth in real terms of half-to one percent. Housing starts, of paramount importance to our business, are expected to decline below 1979 levels in most regions of the country.

It is easy in the current climate of relentless and worrying economic news, to lose sight of the positive elements we have working for us in Canada. And there are many.

Our industry faces difficult economic conditions in the current fiscal year. But our diversification and expansion programs, started in 1979, make us confident of our ability in the long term to grow and compete in financial markets in the new decade.

Directors' Report to the Shareholders

Dean W. Salsman, G. Ross Guy and Lloyd R. Shaw

Hector McInnes, George C. Piercey and A. Russell Harrington

Persistent inflation and a rapid rise in interest rates to historically high levels were the salient economic facts with which the company had to contend in 1979. In making this 130th Annual Report, the Board looks back on a year of severe competition in a weak mortgage market, but also looks forward to expanding the company's range of services to the saving and investing public. It looks forward, also to geographic expansion principally in Calgary, Alberta, with the opening of our new branch there.

Assets, Income and Dividends

For the first time, the company's assets surpassed the $400 million level at year-end. This represents asset growth of 4.2%. Total income reached a new high of over $42 million, up 9.5%, but net income declined to slightly over $1 million, a decrease of 40.2% compared to 1978. Net income per common share after payment of dividends on preferred shares was $0.80 in 1979 and $1.55 in 1978.

Dividends of $306,684 ($2.05 per share) were declared during the year on preferred shares. Dividends of $809,470 were declared on common shares during 1979, a reduction from $952,318 in 1978, as a result of the reduction in the quarterly per-share dividend to 10 cents from 25 cents. The Board reluctantly took this decision, effective with the January 1, 1980 dividend, in order to conserve capital.

It will be seen from the audited financial statements that the company's non-interest expenses were under good control in 1979, rising only 4.8% in an inflationary environment. It was the rapid and sharp escalation in interest rates which caused a 16.2% increase in cost of interest on deposits and funds borrowed.

Mortgages

Demand for mortgage loans softened noticeably during the second half of the year in the face of rising interest rates. The "spread" or interest differential between the company's cost of deposits and revenues earned on mortgages and investments narrowed, especially in the fourth quarter. Present or prospective home owners were reluctant to take on mortgage commitments at historically high rates in a sluggish economy. When they did, they shopped vigorously for the best rate, often for short term, or "open" mortgages.

All financial institutions faced an inverse yield curve, short-term rates being higher than longer-term rates. We found depositors wanted shorter maturities, presumably because they thought rates were going to increase. On the other side of the equation, borrowers were also looking for shorter maturities, apparently for the opposite reason — they thought rates were going to decrease. These seemingly contradictory feelings may be ascribed in part to the uncertainties of the wider world economy. The result of this combination of events was that our traditional bellwether product, the residential mortgage, was subjected to substantial change and severe competition.

Greater emphasis was placed during the year on our Western Canadian operations, especially in Alberta, where the resources-based economy continues strong. Calgary branch is now our largest in terms of mortgages under administration.

Although our emphasis moves westward, your Directors do not underestimate the economic vitality in the Atlantic home provinces, and are alert to the opportunities.

We are moving carefully into a broader range of mortgages with a good percentage increase in the commercial and industrial mortgage business, which is moderating the traditional dependence on the residential sector. In the case of Western operations, these investments are frequently made by way of participations with local brokers and lenders, whose on-the-spot generating and follow-up capacity complements our own abilities. Many mortgage loans are being written on a floating-rate basis to match the cost of funds.

At the close of 1979, the mortgage portfolio was in a healthy condition, with arrears being less than one-quarter of one percent, an

improvement over the previous year, and an achievement of note in the face of economic conditions.

Deposits

Debentures outstanding reached a new high of more than $322 million at year-end, an increase of 6.9%. We are gratified by the public confidence evident in this figure and pleased with the growing geographic dispersion of our depositors. A significant and growing proportion now reside in Canada's western and central provinces.

Leonard H. Lockhart, James E. Radford and Austin E. Hayes (Sidney M. Oland was absent when the picture was taken.)

For marketing purposes, we are now describing debentures as "Investment Savings Certificates". There is no change in the nature or legal standing of these securities, and they remain readily transferable term deposit instruments.

Savings accounts and deposit receipts decreased over the year by 7.5%. This reduction is all in the deposit receipt category and is a favourable development. Deposit receipts are fixed-term deposits of less than one year. In the past, many were of very short maturity. We have discontinued these, renamed the instrument "Short Term Certificate", and raised the minimum dollar amount.

Investments

Cash and investment in government bonds, bank certificates of deposit and high-grade corporate securities at year-end were almost $27 million, an increase of 6.7%. These investments provide both liquidity and a good rate of return.

We shall be seeking out good quality investment opportunities in the year ahead to satisfy liquidity requirements and to increase the aftertax spread.

Real Estate Held for Sale

There was a year-over-year decrease in dollar amount and significant progress was made in reducing the number of accounts in this category. These developments are important because they reduce administrative costs and save the managerial time involved in protecting the shareholders' investment in such assets. We have organized a Property and Collections Department to manage and sell properties, and are pleased with the progress shown. Since year-end, active negotiations have commenced for the sale of several more of these properties.

Chairman of the Board

In September 1979, Mr. George C. Piercey, who had been serving as Chairman, President and Chief Executive Officer since 1975, retired for reasons of health from the positions of President and Chief Executive Officer. He remains as Chairman of the Board. The Directors express their appreciation to Mr. Piercey for his long-standing dedication to the company and to its ideals. His valuable counsel will still be available.

Marketing

The company has adopted a "new look" in its advertising which incorporates a more modern logo. This is indicative of a coordinated marketing approach, offering new financial services and emphasizing the company's ability to be more than a provider of mortgage loans.

Here are three of our principal new services and the marketing titles they carry:

1. "The Multiplier" — a unique daily interest savings account.

2. "The Arrangement" — an aggressive new personal loans program.

3. "The Gold Watch Plan" — a combination of registered retirement savings certificate, and registered retirement savings account.

Our services are similar to those of a bank, and we have received official federal government designation as a "bank" under the Small Businesses Loans Act. The designation will help our move into commercial lending.

And, we are looking at other services as well as improving our computer capacity to handle them. But more important, we are focusing staff and customer attention on the mix of services we offer in order to cross-sell them.

The relocation of one branch to Halifax's Clayton Park Shopping Centre during the year, and the opening of Calgary reflects the Board's desire to expand the retail "delivery system" in a controlled way. A number of additional new locations are currently under study.

Board of Directors
The Executive Committee of the Board met on a regular basis throughout 1979. The Audit Committee and other committees of the Board met several times, in addition to the five regular full-Board meetings. Mr. Dean W. Salsman, Halifax, was elected a member of the Board and of the Executive Committee on March 16, 1979, filling the vacancy left by the retirement of Mr. S. S. Jacobson at last year's annual general meeting. Mr. James E. Radford was elected a Director and member of the Executive Committee.

Employees
The Directors express their appreciation to all staff for their loyalty and hard work in 1979. Thank you all.

ON BEHALF OF THE BOARD

James E. Radford
President and Chief Executive Officer

Calgary

On January 28, 1980, the company completed a major move in its diversification program by enlarging and upgrading its Calgary office. The new full-service branch in Gulf Canada Square was officially opened at a ceremony attended by leading members of the business and financial community.

The decision to put deeper roots down in Alberta was based on two factors:

1. Experience with the mortgage market, gained over a four-year period, showed that the company was competitive and able to acquire a substantial portfolio, principally in residential mortgages.

2. Confidence that with a full-service branch, Nova Scotia Savings & Loan would be able to build on its mortgage base and growing reputation, and fund its investment in Western Canada from local savings.

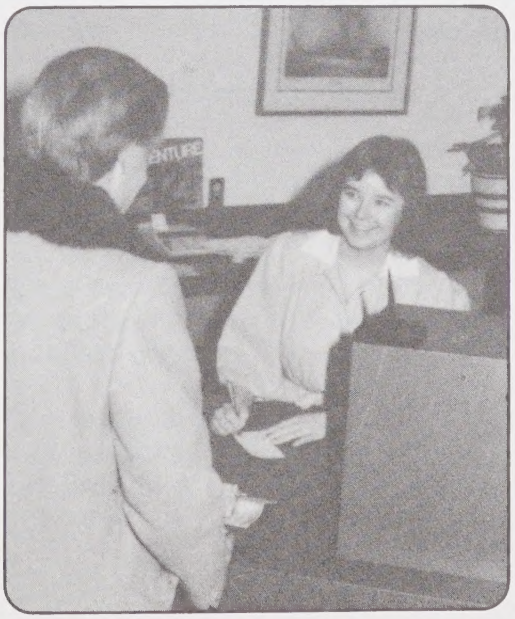
The Calgary branch provides a wide range of chequing, savings and loan services, including several new ones recently introduced and described in detail in the Marketing section.

The company was fortunate in its Western expansion to obtain the services of Albertans with experience in the financial services field.

Above left: Fred Jensen, Manager Western Operations, presenting a gift to Jean Hanna, the first customer at the Calgary Branch

Above: Bruce MacDonald, Director of Business Development, City of Calgary, cutting the ribbon to open the branch, with Gordon Sarafinchan, Branch Manager, and James E. Radford, President and Chief Executive Officer

Left: Staff members — Betty Hosking and Glenda Ward
Below left: Janice Beasley, Account Advisor, serving a customer
Below: Fred Jensen, Manager Western Operations, with a client



Marketing

New Symbol and Logotype

The N and S flow gracefully together, the N forming a protective arc, or umbrella over the S, suggesting security and solidity of purpose. The N also creates a portal or open door. It stands solidly on its own two feet. In overall impression, the design is a blend of modern and traditional.

Everyone who does business with Nova Scotia Savings & Loan is a potential customer for other services.

That is the cornerstone of the company's new marketing policy. During the year senior officers and branch managers reviewed business development procedures to ensure that no opportunities to cross-sell services would be overlooked. Friendly over-the-counter contact has always been a mark of our branch operations; cross-selling builds on that goodwill.

These new policies, combined with our existing customer base, are expected to add substantially to our volume of business in the current fiscal year.

To ensure that the branches are competitive, all account services were reviewed in detail and amended or refined where necessary.

A comprehensive advertising program built around major services was prepared for a January launch in principal markets.

To ensure the effectiveness of the advertising budget, all insertions have been carefully planned to stimulate demand at the most propitious times of the year.

Personal Loans

A personal loans plan was prepared for introduction in early 1980 as an important part of our diversification program, and is now being marketed under the title, "The Arrangement". The company was able to attract an experienced staff to implement the program through the branches as well as by direct contact. "The Arrangement" is competitively priced and, as the title suggests, designed to accommodate customer needs.

Collateral Loans

Services were broadened by offering loans to holders of investment securities at competitive rates of interest.

Commercial Lending

Commercial loan demand was strong, and it is our intention to pursue a large share of this market.

Our participation in commercial lending has been limited, and it is our intention, therefore, to move cautiously and, where feasible, in participation with other lenders.

Services

In addition to our traditional mortgages, new programs were introduced during the year to provide a complete range of services. To make these easier to advertise and identify, all accounts were given names:

Performance Savings:
Regular savings without chequing privileges, carrying a competitive interest rate.

The Multiplier:
Daily interest with a difference! Every fourth Friday, thirteen times a year, interest is paid into Multiplier accounts. There are no service charges and no minimum balance is required.

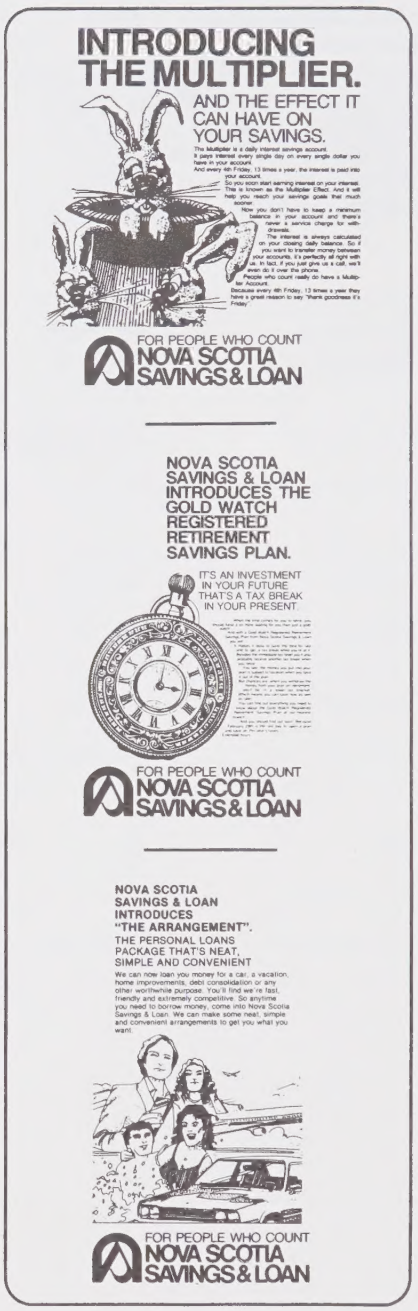
Gold Watch Savings Plan:
Our registered retirement savings plan was renamed and a registered savings account added.

Old-Fashioned Savings:
Our interest-bearing chequing savings account. A passbook is issued and no charges made for cheques.

Investment Savings Certificates:
Debentures with a new name. The instrument remains unchanged, providing fixed rates of interest for periods up to five years.

Short Term Certificates:
Deposit certificates with a duration of less than one year.

The Arrangement:
A personal loans program which provides funds for a variety of purposes.



Financial Highlights

For the information of shareholders, the valuation day value of the company's common stock for capital gains tax purposes as published by the Department of National Revenue, Taxation, is $15.50.

	1979	1978	% INCREASE (DECREASE)
BALANCE SHEET:			
Total assets	$400,751,274	$384,527,341	4.2
Investments	26,933,694	25,251,199	6.7
Loans	367,462,802	351,889,698	4.4.
Savings accounts & deposit receipts	58,844,994	63,616,633	(7.5)
Debentures (Investment Savings Certificates)	322,025,011	301,177,338	6.9
Shareholders' equity	16,317,414	16,368,018	(0.3)
STATEMENT OF INCOME:			
Total income	42,446,936	38,771,247	9.5
Interest on deposits and borrowings	37,115,394	31,949,356	16.2
All other expenses	4,173,582	3,981,616	4.8
Securities gains, less related income taxes	231,490	106,378	117.6
Net income	1,065,550	1,780,853	(40.2)
Net income per common share after payment of dividends on preferred shares	0.80	1.55	(48.4)
Dividends declared on common shares	809,470	952,318	(15.0)

Statement of Income

Year ended December 31, 1979
(with comparative figures for 1978)

	1979	1978
INCOME:		
Interest from mortgages and other loans	$39,436,165	$36,336,416
Investment income	2,682,147	2,085,318
Fees and commissions	208,949	260,332
Other operating revenue	119,675	89,181
	42,446,936	38,771,247
EXPENSES:		
Interest on deposits and borrowings	37,115,394	31,949,356
Administration	3,301,725	3,089,698
Provision for losses and accounts written off	806,381	837,186
Depreciation and amortization	65,476	54,732
	41,288,976	35,930,972
Operating income before income taxes	1,157,960	2,840,275
Income taxes:		
Current	118,200	1,002,800
Deferred	205,700	163,000
	323,900	1,165,800
Operating income before securities gains	834,060	1,674,475
Securities gains, less related income taxes	231,490	106,378
Net income	$ 1,065,550	$ 1,780,853
Earnings per common share:		
Income before securities gains	$ .56	$ 1.44
Securities gains	.24	.11
Net income	$ .80	$ 1.55

See accompanying notes to financial statements.

Balance Sheet

December 31, 1979 (with comparative figures for 1978)

ASSETS	1979	1978
Cash and short-term deposits	$ 789,379	$ 1,535,600
Investments, at cost:		
Bonds and accrued interest	3,552,784	2,221,376
Chartered bank deposit certificates and accrued interest	16,421,493	17,357,536
Stocks	6,959,417	5,672,287
	26,933,694	25,251,199
Market value: December 31, 1979 — $26,725,880 December 31, 1978 — $25,506,599		
Loans:		
Mortgages, agreements of sale and accrued interest, less allowance for doubtful accounts	366,951,363	351,637,252
Secured loans	511,439	252,446
	367,462,802	351,889,698
Other assets:		
Real estate held for sale, at estimated realizable value	4,603,290	4,823,318
Real estate held for future development, at cost	233,498	173,009
Equipment and furnishings, at cost, less depreciation	147,324	136,285
Leasehold improvements, at cost, less amortization	170,098	139,759
Income taxes recoverable	131,800	250,000
Sundry	279,389	328,473
	5,565,399	5,850,844
	$400,751,274	$384,527,341

See accompanying notes to financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	1979	1978
Deposits and borrowings:		
Savings deposits	$ 14,823,613	$ 13,428,635
Deposit receipts and accrued interest	44,021,381	50,187,998
Debentures and accrued interest	322,025,011	301,177,338
Subordinated notes and accrued interest	1,110,940	1,109,945
	381,980,945	365,903,916
Other liabilities:		
Amounts held for insurance and tax payments on mortgaged properties	227,512	125,656
Dividends payable	171,903	314,751
Provision for pensions	32,500	34,500
	431,915	474,907
Deferred income taxes (note 1)	2,021,000	1,780,500
Shareholders' equity:		
Capital stock (note 2)	4,896,636	4,896,636
General reserve	8,500,000	8,500,000
Retained earnings	2,920,778	2,971,382
	16,317,414	16,368,018
	$400,751,274	$384,527,341

The undersigned officials of Nova Scotia Savings & Loan Company hereby certify that they have examined the financial statements of the company and that, to the best of their knowledge and belief, the statements are correct and show truly and clearly the financial condition of the company's affairs.

Chairman

President and Chief Executive Officer

General Manager

Statement of Retained Earnings

Year ended December 31, 1979
(with comparative figures for 1978)

	1979	1978
Balance, beginning of year	$2,971,382	$2,849,531
Net income for the year	1,065,550	1,780,853
	4,036,932	4,630,384
Deduct:		
Dividends — common	809,470	952,318
— preferred	306,684	306,684
Transfer to general reserve	—	400,000
	1,116,154	1,659,002
Balance, end of year	$2,920,778	$2,971,382

Statement of General Reserve

Year ended December 31, 1979
(with comparative figures for 1978)

	1979	1978
Balance, beginning of year	$8,500,000	$8,100,000
Transfer from retained earnings	—	400,000
Balance, end of year	$8,500,000	$8,500,000

See accompanying notes to financial statements.

Statement of Changes in Financial Position

Year ended December 31, 1979
(with comparative figures for 1978)

	1979	1978
FUNDS PROVIDED:		
Net income	$ 1,065,550	$ 1,780,853
Add items not requiring a current outlay of cash	905,976	922,732
Funds provided by operations	1,971,526	2,703,585
Increase in debentures and deposits	16,077,029	36,816,915
Decrease in cash and short-term deposits	746,221	1,432,537
Other	167,284	—
	$18,962,060	$40,953,037
FUNDS APPLIED:		
Increase in investments	$ 1,682,495	$ 1,405,852
Increase in loans	15,573,104	35,103,262
Increase in real estate held for sale	379,972	2,464,163
Increase in real estate held for future development	60,489	—
Additions to equipment, furnishings and leasehold improvements	106,854	74,299
Dividends on common stock	809,470	952,318
Dividends on preferred stock	306,684	306,684
Decrease in other liabilities	42,992	607,912
Other	—	38,547
	$18,962,060	$40,953,037

See accompanying notes to financial statements.

Comparatives

(ALL AMOUNTS ARE EXPRESSED IN THOUSANDS EXCEPT AS INDICATED*)

	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970
INCOME										
Income	$ 42,446	$ 38,771	$ 35,903	$ 31,788	$ 28,913	$ 23,991	$ 17,661	$ 12,548	$ 9,468	$ 7,171
% Increase	* 9.5%	8.0%	12.9%	9.9%	20.5%	35.8%	40.7%	32.5%	32.0%	29.6%
EXPENSE										
Cost of Borrowed Funds	$ 37,115	$ 31,949	$ 28,431	$ 26,123	$ 23,143	$ 19,784	$ 13,100	$ 8,762	$ 6,557	$ 5,181
Administration Expense	3,302	3,090	2,631	2,263	1,623	1,385	1,165	907	596	550
Provision for Losses and Accounts Written Off	806	837	1,023	429	215	7	1	14	8	1
Depreciation & Amortization	65	55	53	48	39	34	41	29	24	21
Administration Expense as % of Income	* 7.8%	8.0%	7.3%	7.1%	5.6%	5.8%	6.6%	7.2%	6.3%	7.7%
EARNINGS										
Net Income Before Taxes	$ 1,158	$ 2,840	$ 3,765	$ 2,925	$ 3,893	$ 2,781	$ 3,354	$ 2,836	$ 2,283	$ 1,418
Securities Gains (Losses) Net	231	106	84	—	(4)	280	121	—	—	—
Income Taxes — Current	118	1,002	1,783	1,168	1,575	835	1,072	835	932	669
— Deferred	206	163	(189)	97	220	559	555	458	178	38
Net Income Available for Distribution	1,065	1,781	2,255	1,660	2,094	1,667	1,848	1,543	1,173	711
Per Common Share	* .80[1&3]	1.55[1&3]	2.05[1&3]	1.42[1&3]	2.04[1&3]	1.75[1]	2.00[1&2]	1.82	1.38	.84
Dividends Declared Per Common Share	* .85	1.00	1.00	1.00	1.00	1.00	.92	.78	.51	.40
EQUITY										
Preferred	$ 2,992	$ 2,992	$ 2,992	$ 2,992	$ 3,000	$ —	$ —	$ —	$ —	$ —
Common	13,325	13,376	12,854	12,047	11,647	10,914	10,198	7,109	6,224	5,481
Net Earnings after Taxes on Average Common Shareholders' Equity	* 8.0%	13.6%	18.1%	14.0%	18.6%	15.8%	21.4%	23.1%	20.0%	13.4%
ASSETS										
Mortgages	$367,463	$351,890	316,786	$288,817	$263,536	$234,938	$192,529	$141,025	$100,949	$79,393
Investments (at cost)	26,934	25,251	23,845	23,415	21,084	14,968	12,593	9,674	7,094	5,843
Total Assets	400,751	384,527	347,633	315,742	287,156	255,682	208,031	152,416	109,876	85,749
% Total Asset Growth	* 4.2%	10.6%	10.1%	10.0%	12.3%	22.9%	36.5%	38.7%	28.1%	25.6%
SAVINGS & TERM DEPOSITS										
Savings & Deposit Receipts	$ 58,845	$ 63,617	$ 52,252	$ 50,038	$ 47,940	$ 49,570	$ 45,841	$ 30,523	$21,190	$16,228
Debentures (Investment Savings Certificates)	322,025	301,177	275,170	246,247	219,222	192,678	148,226	113,458	81,516	63,428

[1] Earnings Per Common Share in 1973 includes net securities gains of $121,350; in 1974 includes net securities gains of $280,136; in 1975 includes net securities losses of $3,677; in 1976 includes net securities gains of $366; in 1977 includes net securities gains of $84,045; in 1978 includes net securities gains of $106,378; in 1979 includes net securities gains of $231,490.

[2] Earnings Per Common Share in 1973 are based on the weighted average of 926,007 shares, being 847,075 for the first quarter and 952,318 for the remaining three quarters.

[3] Earnings Per Common Share are calculated on earnings after payment of dividends on preferred shares for 1975 and subsequent years.

Auditors' Report

Auditors' Report to the Shareholders

We have examined the balance sheet of Nova Scotia Savings & Loan Company as at December 31, 1979 and the statements of income, retained earnings, general reserve and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

Halifax, Canada
January 21, 1980

NOTES TO FINANCIAL STATEMENTS

December 31, 1979

1. Deferred income taxes:

   Deferred income taxes have arisen as a result of deducting for income tax purposes amounts allowable in respect of mortgage reserves which are in excess of amounts provided in the accounts. In 1968, the company adopted the tax allocation basis of accounting and has recorded deferred taxes in the amount of $2,021,000. No provision has been made for the amount of $237,000 relating to 1967 and prior years.

2. Capital stock:

   Authorized:
   500,000 cumulative redeemable preferred shares, issuable in series, of a par value of $20 each
   2,500,000 common shares of a par value of $2 each

   Issued and fully paid:

	1979	1978
150,000, 10.25% Series A, cumulative redeemable preferred shares	$3,000,000	$3,000,000
Less 400 shares redeemed	8,000	8,000
	2,992,000	2,992,000
952,318 common shares	1,904,636	1,904,636
	$4,896,636	$4,896,636

   The Series A preferred shares may be redeemed on or after July 1, 1980 at $21.40 plus accrued and unpaid dividends. The redemption price will decrease by 20c per share for each two-year interval through to July 1, 1992 after which time the redemption price shall be $20.20 per share.

   The company is required, subject to certain terms and conditions, to annually retire 7,500 Series A preferred shares by purchase in the open market at a price not exceeding $20 per share plus accrued and unpaid dividends. Investment market conditions during most of 1979 did not permit such purchases.

3. Commitments:

   Aggregate rentals payable during each of the next five years under long-term leases of premises and equipment amount to approximately $360,000. Included in administration expense for the year ended December 31, 1979 is $380,400 for rentals.

4. Pension obligation:

   The unfunded past service liability with respect to the employees' pension plan based on an actuarial study dated September 13, 1978 was estimated to be approximately $251,600 at January 1, 1978. Payments of $31,800 are being made annually and charged to operations with the intention of fully funding the past service liability by December 31, 1987. Subject to specified conditions, the Directors retain the right to amend, modify or terminate the plan.

Board of Directors, Officers, Management

Account Advisor Norma MacQuarrie with a customer, Main Branch, Halifax

Gloria Burbridge our Receptionist at Main Branch, Halifax

Personal Loans Staff, Head Office — Glenn Wallace, Malcolm MacDonald and Susan Smith

Directors

*G. Ross Guy, M.C.
Business Executive

†*A. Russell Harrington, B.E., D.Eng., D.C.L.
Business Executive

*Austin E. Hayes, B.Com.
President, Hayes Enterprises Limited

†Leonard H. Lockhart
President, Lock-Wood Limited

*Hector McInnes, B.A., LL.B., LL.M., Q.C.
Partner; McInnes, Cooper & Robertson
(Barristers and Solicitors)

Sidney M. Oland, M.A., M.B.A. (Harv.)
Executive Vice-President, Canadian Operations,
Labatt Brewing Company Limited

*George C. Piercey, C.M.M., Q.C.
Chairman of the Board,
Nova Scotia Savings & Loan Company

*James E. Radford, B.Com., M.B.A. (Harv.), C.A.
President and Chief Executive Officer,
Nova Scotia Savings & Loan Company

†*Dean W. Salsman
Chairman of the Board, Parker Brothers
(1972) Limited

†*Lloyd R. Shaw, B.A., M.A.
President, L.E. Shaw Investments
Limited

*Member of the Executive Committee
†Member of the Audit Committee

Officers

George C. Piercey, C.M.M., Q.C.
Chairman of the Board

James E. Radford, B.Com., M.B.A. (Harv.), C.A.
President and Chief Executive Officer

A. Russell Harrington, B.E., D.Eng., D.C.L.
Vice-President

Hector McInnes, B.A., LL.B., LL.M., Q.C.
Vice-President

Robert T. Hammer, R.I.A.
General Manager

Reuben C. Cluett, R.I.A.
Treasurer and Controller

Barrie H. Black, B.A., LL.B., LL.M.
General Counsel

Russell G. Buell
Supervisor Personnel and Administration

Pauline E. Helms
Secretary

Bankers

The Bank of Nova Scotia
The Royal Bank of Canada

Branches

Calgary, Alberta
165 Gulf Canada Square
325 9th Avenue S.W.
T2P 3C5
(403) 266-7195

G. Fredrick Jensen
Manager Western Operations

Gordon R. Sarafinchan
Branch Manager

Dartmouth, Nova Scotia
50 Portland Street
B2Y 3Z3
(902) 463-4666

Ronald B. Conrod
Branch Manager

Halifax, Nova Scotia
1645 Granville Street
B3J 2T3
(902) 423-1181

Roland H. Brewer
Branch Manager

Clayton Park Shopping Centre
278 Lacewood Drive
B3M 3N8
(902) 443-8662

Alan F. Henderson
Branch Manager

New Glasgow, Nova Scotia
133 Provost Street
B2H 5E1
(902) 755-5080

Joseph V. Walsh
Branch Manager

Saint John, New Brunswick
18 King Street
E2L 4E3
(506) 652-1820

Thomas E. Davidson
Branch Manager

Head Office Departments

Mortgage Investments
Robert D. Brownrigg, Senior Manager

Personal Loans
Glenn Wallace, Manager
Malcolm M. MacDonald, Coordinator

Deposit Services
Grant I. Warwick, Manager
Margaret E. McCoombs, Investment Savings
Certificate Sales

Computer Operations
Frank J. Boutilier, Manager Data Centre
Donald A. Folks, Manager Systems and Programming

Systems Analyst
Roderick T. Glencross, B.Com., R.I.A.

Property and Collections
Lauchlin W. MacDonald, B.Sc., Manager

Accounting
Roy A. Caborn, Chief Accountant

Above: Deposit Services — Margaret McCoombs, Grant Warwick and Marcia Keats
Top centre: Dartmouth Branch — John Bedard and Janice Marshall
Top right: Robert Brownrigg, Senior Manager Mortgage Investments, with Nancy Campbell
Centre: Senior computer personnel — Bruce Marriott, Frank Boutilier and Donald Folks
Centre right: Michael Treleaven with Lauchie MacDonald, Manager Property and Collections

Above: One of our Account Advisors Dorcas Brushett serving a customer at Main Branch, Halifax
Left: Officers — James E. Radford, President and Chief Executive Officer, seated with R. T. Hammer, General Manager, and Pauline Helms, Secretary. Standing, R. G. Buell, Supervisor Personnel and Administration; Barrie Black, General Counsel; and Reuben Cluett, Treasurer and Controller

Head Office: 1645 Granville Street, Halifax, Nova Scotia B3J 2T3 (902) 423-1181

Federally Incorporated
Member: Canada Deposit Insurance Corporation
Stock Listed On The Toronto and Montreal Stock Exchanges